



WHITEPAPER

The Health of Managed Services in 2019

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Over the past several years, SolarWinds has partnered with The 2112 Group to conduct a health check of the IT service industry. While you can view the full findings in a separate report, this whitepaper offers a summary and analysis of some key findings.

First, managed services became ubiquitous this year. 97% of respondents, including MSPs, value-added resellers (VARs), systems integrators (SIs), and IT consultants, offer some form of recurring managed services. While the recurring nature of managed services makes this attractive to IT providers, profit margins remain healthy as well—with 31% – 34% on average in North America and 21% – 25% in Europe. In short, the data indicates managed services is profitable and predictable.

The ubiquity of managed services is good news. Businesses increasingly expect managed services arrangements, so resistance to longer term contracts should be lower than it was earlier in the decade. However, as managed services becomes the status quo, providers must look for new ways to stand out or become more profitable.

Fortunately, we discovered several opportunities for IT providers when we drilled down into the data. We'll cover them—and other findings—in the next few pages.

1. PROVIDERS HAVE THE FOUNDATIONS COVERED

- » Top services in North America included device management (93%), server management (89%), network monitoring/management (84%), and disaster recovery as a service (83%).
- » Top services in Europe included device management (91%), server management (86%), email management (80%), and network monitoring/management (77%).

Most providers offer the traditional bread-and-butter services like device, server, and network monitoring and management. This makes sense—they're the primary reasons people choose IT providers. However, providers can't get complacent by staying in their comfort zones. Businesses looking to grow should differentiate by offering higher-value, complex services. Indeed, 66% of businesses in Europe and 72% in North America plan to offer additional services over the next 12 months.

There's also an opportunity for providers to expand coverage for services they already offer. For example, in North America, 83% already offer disaster recovery as a service, while 70% do the same in Europe. With the proliferation of cyberattacks and data breaches—as well as

the subsequent increased awareness of their effects—MSPs can gain ground by protecting more of their customers' data than they do now. For example, backing up cloud data stored in Microsoft® Office 365® or critical business documents on workstations can help MSPs offer the same services at a higher price.

Bottom line: Managed services is an expected way of doing IT business. To stand out, step out of your comfort zone and offer new services or try to cover more of your customers' environments.

2. SECURITY: STRONG PROGRESS WITH ROOM FOR GROWTH

- » For solutions, in North America, respondents were most comfortable offering and using antivirus (89%), firewalls (83%), data backup and recovery (81%), and endpoint security (75%).
- » In Europe, respondents were most comfortable offering and using antivirus (93%), data backup and recovery (82%), firewalls (82%), and antispyware (80%) as solutions.

If you're an IT provider, you've likely received a constant push of messages about the importance of offering security services. Security services have become a necessity with the growth of cyberattacks and the public's awareness of them. Making matters worse, cybercriminals have turned their attacks toward MSPs.¹

Thankfully, MSPs are comfortable with many of the basics like antivirus, backup, and firewalls. Along with patching and strong practices like user awareness training and password hygiene, these technologies can prevent the lion's share of attacks. In even better news, most MSPs feel comfortable offering and using endpoint security products, which can help reduce the risk of advanced endpoint attacks and zero-day attacks.

However, MSPs have room for growth in some of the more advanced security solutions and offerings. When asked what solutions they were least comfortable with, both European and North American respondents selected the same as their top three: biometrics, cloud access security brokers (CASBs), and digital rights management. These advanced solutions offer room for them to grow, particularly regarding CASBs.

On the services end, European respondents were least comfortable with penetration testing (52%), auditing and compliance management (39%), and risk assessments (36%). North America respondents were least comfortable with auditing and compliance management (53%), penetration testing (47%), and security system architecture (39%).

This makes sense—these security technologies and practices fall more within the purview of managed security services providers (MSSPs) than traditional MSPs or IT service providers. There are two options for addressing this issue. First, IT providers could bring a security guru on board to offer these services in-house. But traditional MSPs will have to compete with MSSPs and in-house security teams for qualified candidates when there's already a shortage

¹ "APTs Targeting IT Service Provider Customers," CISA. <https://www.us-cert.gov/APTs-Targeting-IT-Service-Provider-Customers> (Accessed December 2019).

of skilled security professionals.² The second—and perhaps quicker, easier route—is to partner with a specialized security provider. This lets you off-load the brunt of advanced security to a specialist, while you stick to your core focus.

It's an uncomfortable time in the IT market. On the one hand, many advanced security practices remain out of reach for MSPs, yet threats against both small businesses and MSPs are only getting worse.³ How the industry responds will be realized in years to come. For now, it may be best for MSPs to look for a security partner to round out their capabilities. But we should give credit where it's due—the channel shows encouraging signs MSPs are taking security seriously and handling the fundamentals well for their customers.

Bottom line: MSPs should continue offering the fundamentals to their customers. Even so, MSPs should connect with security professionals in the area—it will pay dividends down the line.

3. AUTOMATION IS THE NEXT FORCE MULTIPLIER

- » Automation saves North American MSPs an average of 15.6 full-time employee hours per week.
- » Automation saves European MSPs an average of 23 full-time employee hours per week.

Automation offers several potential benefits for MSP businesses. For starters, it allows the workforce to handle more without increasing their actual workload. Plus, it allows for more consistent service and reduces errors (assuming you've automated the steps for a given task properly). On top of this, it allows your technicians to move onto more lucrative tasks. If you want to offer more complex services—a key way to stand out from other MSPs—automating more of the day-to-day tasks frees the workforce to tackle complex problems that require human intervention.

So where does the industry stand? For starters, MSPs currently save a decent amount of time per week—and those hours add up. For example, if you took the average European hourly savings of 23 per week, you'd save an average of 1,196 hours per year with automation.

But how comfortable are IT providers with automation? Most respondents felt comfortable automating the basics, but don't automate more advanced tasks. On both sides of the Atlantic, the highest comfort level for automation comes around patch management and backup, both of which are generally done almost "out of the box" with the solutions. Surprisingly, few in Europe (32%) chose troublesome ticketing as among their most comfortable automation tasks. Many RMM tools integrate with common PSA solutions, making this a much easier win than providers think.

When it comes to the tasks respondents were least comfortable automating, there's divergence between the two groups. In North America, 44% answered client onboarding with identity

² "The Cybersecurity Talent Gap is an Industry Crisis," Forbes. <https://www.forbes.com/sites/forbestechcouncil/2018/08/09/the-cybersecurity-talent-gap-is-an-industry-crisis/#2b78c0fa6b36> (Accessed December 2019).

³ "Cyberattacks Now Cost Companies \$200,000 on average, Putting Many Out of Business," CNBC. <https://www.cnbc.com/2019/10/13/cyberattacks-cost-small-companies-200k-putting-many-out-of-business.html> (Accessed December 2019); "APTs Targeting IT Service Provider Customers," CISA. <https://www.us-cert.gov/APTs-Targeting-IT-Service-Provider-Customers> (Accessed December 2019).

and access management close behind at 38%. These tasks are frequent enough that service providers can likely gain a lot of efficiency by automating even portions of these tasks. In Europe, respondents were least comfortable automating SQL query workflows (57%) but shared their discomfort with automating identity and access management with their North American counterparts. Additionally, both groups cited account activation as well—24% in North America and 23% in Europe. Like onboarding, these tasks should be common and standard, so service providers should look at automating these areas.

Ultimately, automation is a major opportunity for IT providers. Those who automate can watch their businesses grow faster than before. And it doesn't always take a scripting maestro to automate common tasks—there are solutions on the market allowing even novices to automate via a drag-and-drop editor.⁴

Bottom line: Automation is a force multiplier for MSPs. We can expect MSPs who automate more of their business will grow faster than their counterparts.

4. SALES ARE STILL THE BIGGEST GROWTH OBSTACLE

- » North American MSPs claimed their biggest obstacles toward growth were sales (43%), lack of time/resources (42%), and marketing (26%).
- » European MSPs claimed their biggest obstacles toward growth were lack of time/resources (41%), sales (32%), and security threats (32%).

Most people enter the MSP business with expertise primarily in IT. As they take on new clients—often organically via word of mouth—the tendency is to try to “clone” themselves by hiring new technicians. On its surface, this makes a lot of sense—doing this can expand capacity and free the MSP owner up for growth opportunities.

But if it were as simple as delivering good IT services, more MSPs would thrive. When it comes to the biggest business roadblocks, most respondents claimed sales, lack of time/resources, and marketing as the primary anchors. And obviously, a lack of time/resources can affect sales and marketing efforts as well.

When looking at the employee makeup for most MSPs, most were either technicians or worked as customer support reps. Sales reps only made up 18% in Europe and 20% in North America. With respondents on both sides claiming sales to be a major anchor on their growth—as well as a lack of time and resources—it makes sense for service providers to hire dedicated sales staff to handle this part of the business. Specialized salespeople can learn to speak the customer's language and free up time for business owners to work on other aspects of the business.

Bottom line: Hiring a salesperson can be another force multiplier for your business. Before you hire new technicians, consider whether that money could go to a dedicated salesperson instead.

⁴ "Automation and Scripting Management," SolarWinds MSP. <https://www.solarwindsmsp.com/products/rmm/automated-maintenance> (Accessed December 2019).

5. RETENTION HAS IMPROVED, BUT PROVIDERS CAN'T REST

- » In North America, respondents pick up an average of four clients every three months while losing one in the same period.
- » In Europe, respondents pick up an average of three clients every two months while losing more than one on average in the same period.

One of our most surprising and troublesome findings from last year was that most MSPs would lose customers almost as fast as they gained them. This year, we're seeing improvement on the retention end. This is great news for MSPs, since it costs time and money to find new customers.

Top causes of customer loss included the company either went out of business (26% in North America and 16% in Europe) or were fired by the partner (25% in North America and 16% in Europe). While these losses certainly hurt, they're far better reasons to lose a customer than due to a bad service experience.

Ultimately, the improvement in retention numbers is great news for IT providers. This opens the opportunity for these providers to expand services offerings or grow their coverage for accounts that already know and trust them. However, it's important to keep these retention efforts going. MSPs claimed the top ways they look to maintain high retention rates (or improve them) are by enhancing communication, increasing service offerings, adding consultations, and making it easier for customers to do business.

Bottom line: As retention numbers improve, MSPs should look to expand their service footprint within the accounts they've already landed—and always keep working to retain their most important clients.

KEY TAKEAWAYS

As this year's data shows, managed services remains a profitable and strong way of doing business for IT providers. However, as the market continues maturing, service providers need ways of either differentiating their services, improving their margins, or taking on new clients at a more rapid clip to outpace the competition.

Some key areas for service providers to focus on in the next year include security, automation, and sales. On the security front, providers already do a great job of covering the basics, but may need to branch out by partnering with dedicated security providers. For automation, service providers have an incredible opportunity for growth, especially if they're willing to automate around onboarding and account activation. Finally, IT providers still have room to improve on building out their sales teams on both sides of the pond.

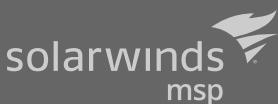
In short, once again, the state of managed services is strong. And the future looks bright for those who are willing to step out of their comfort zones and continue expanding their practices.

In Europe, 89% of respondents rated RMM and PSA tools as either "extremely important" or "very important." In North America, it's 90%. With such high ratings, it's crucial to choose the right tools. SolarWinds MSP offers two great RMM products that integrate with several PSA tools in today's market. Learn more by visiting solarwindsmsp.com today.

About SolarWinds MSP

SolarWinds (NYSE:SWI) is a leading provider of powerful and affordable IT management software. Our products give organizations worldwide—regardless of type, size, or complexity—the power to monitor and manage their IT services, infrastructures, and applications; whether on-premises, in the cloud, or via hybrid models. We continuously engage with technology professionals—IT service and operations professionals, DevOps professionals, and managed services providers (MSPs)—to understand the challenges they face in maintaining high-performing and highly available IT infrastructures and applications. Targeted for MSPs, the SolarWinds MSP product portfolio delivers broad, scalable IT service management solutions that integrate layered security, collective intelligence, and smart automation. Our products are designed to enable MSPs to provide highly effective outsourced IT services for their SMB end customers and more efficiently manage their own businesses.

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